

## Message Text

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ORIGIN ARA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00  
COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07 INT-05  
L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 OES-06  
SP-02 SS-15 STR-04 TRSE-00 ACDA-07 FEA-01 OPIC-03  
FTC-01 /102 R

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-----150650Z 078789 /23-12

R 142042Z APR 77

FM SECSTATE WASHDC

TO AMEMBASSY CARACAS

C O N F I D E N T I A L STATE 084123

E.O. 11652: GDS

TAGS: ENRG, EFIN, EINV, VE

SUBJECT: DEPARTMENT MEETINGS WITH PHILLIPS AND  
MOBIL OIL

1. DEPARTMENT OFFICERS MET MARCH 28 AND 30 WITH REPRESENTATIVES OF MOBIL AND PHILLIPS PETROLEUM RESPECTIVELY AT THEIR REQUEST. GENERAL COMMENTS FOLLOW:

2. MOBIL'S REPRESENTATIVES FROM CARACAS, NEW YORK AND WASHINGTON VOICED THREE CONCERNS: BACK TAX CLAIMS (CURRENTLY BEING CONTESTED IN COURTS), CLAIMS OF THE COMPTROLLER GENERAL (ABOUT WHICH THEY FEEL REASONABLY CONFIDENTIAL

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OPTIMISTIC), AND CLAIMS AGAINST GUARANTY FUND. ACCORDING TO MOBIL REPS, INITIAL GOV CLAIMS AMOUNTED TO OVER 100 OF FUND. THIS AMOUNT HAS NOW BEEN NEGOTIATED WITH GOV FIELD INSPECTORS DOWN TO 51 . THE GOV INVENTORY OF MOBIL'S PHYSICAL ASSETS HAS BEEN COMPLETED AND WILL SOON GO TO THE SIX-MAN RECEPTION COMMITTEE BOARD (ON WHICH MOBIL HAS ONLY 1 VOTE). MOBIL MAINTAINS IT TURNED OVER

ITS ASSETS IN "MATURE BUT WELL-OPERATING CONDITION".  
CLAIMS AGAINST GUARANTEE FUND INCLUDE CHARGES FOR WHAT  
MOBIL CONSIDERS UNNECESSARY IMPROVEMENTS SUCH AS NEW PAINT  
JOBS FOR OIL STORAGE TANKS, ETC., REHABILITATION OR  
REPLACEMENT OF EQUIPMENT WHICH HAD BEEN FULLY DEPRECIATED

AND FOR WHICH NO COMPENSATION HAD BEEN RECEIVED, AS WELL  
AS MAINTENANCE COSTS FOR 1976, AFTER NATIONALIZATION.

3. MOBIL CARACAS REPRESENTATIVE MET ABOUT 4 WEEKS AGO  
WITH ENERGY MINISTER HERNANDEZ, WHO REPORTEDLY EXPRESSED  
SURPRISE THAT THERE WERE ANY DIFFICULTIES IN INVENTORY  
ASSESSMENTS AND SAID HE THOUGHT SUCH NEGOTIATIONS HAD  
BEEN GOING ALONG SMOOTHLY. MOBIL BELIEVES THAT MORALES  
OF THE REVERSION OFFICE IN THE FINANCE MINISTRY IS KEY  
FIGURE IN SENDING THE GOV INVENTORY OF PHYSICAL ASSETS  
TO RECEPTION COMMITTEE AS MORALES CAN SIFT THROUGH AND  
ALTER THE FIGURES LEVIED AGAINST MOBIL'S FUND. MOBIL  
NOW MAKING TOTAL EVALUATION OF GOV INVENTORY, AND THEN  
PLANS TO GO TO MORALES.

4. ADDITIONAL CONCERN RAISED BY MOBIL REGARDS REPATRI-  
ATION OF WHATEVER PORTION OF GUARANTY FUND THEY GET.  
ALLEGEDLY AMOCO WAS TOLD BY GOV THAT IT MUST FIRST GET  
PERMISSION FROM THE COMPTROLLER GENERAL AND FINANCE  
MINISTER TO REPATRIATE FUNDS, WHICH GOES CONTRARY TO  
ORIGINAL AGREEMENT ALLOWING IMMEDIATE REPATRIATION OF  
80 OF GUARANTY FUND.

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5. THEY CONCLUDED BY SAYING THAT ALTHOUGH MOBIL HAS  
TECHNICAL SERVICE AGREEMENT AND MODERATE OFFTAKE AGREE-  
MENTS WITH GOV, THERE IS MARKED LACK OF ENTHUSIASM IN  
MOBIL MANAGEMENT FOR STAYING ON IN VENEZUELA SHOULD  
ABOVE CONCERNS NOT BE SOLVED SATISFACTORILY. MOBIL IS  
MORE INTERESTED IN REALIZING PROMISED COMPENSATION THAN  
IN ONGOING AGREEMENTS. THEY ALSO MAINTAIN THAT  
COMPANIE WIT; MAJOR VENEZUELAN OPERATIONS DO NOT HAVE  
MUCH DIFFERENCE IN THEIR WAYS OF OPERATING AND MAINTAIN-  
ING ASSETS, AND THEREFORE GOV WOULD REASONABLY HAVE  
APPROXIMATELY SAME AMOUNT OF PERCENTAGE CLAIMS AGAINST  
ALL COMPANIES. IN FACT, GOV CLAIMS AGAINST EXXON ARE  
ONLY 11 OF GUARANTY FUND, SHELL 22 , GULF AND AMOCO 33  
AND TEXACO 50 . MOBIL WOULD EXPECT ALL TO BE MORE IN  
LINE WITH EXXON'S 11 .

6. THREE PHILLIPS REPRESENTATIVES INCLUDING VENEZUELA  
MANAGER OUTLINED SIMILAR DIFFICULTIES RE GOV CLAIMS  
AGAINST GUARANTY FUND, WHICH IN ITS CASE ORIGINALLY

AMOUNTED TO 103 OF FUND. THROUGH NEGOTIATIONS WITH FIELD INSPECTORS, THIS FIGURE HAS NOW BEEN REDUCED WITH PHILLIPS HOPEFUL OF GETTING IT DOWN TO AROUND 30 .

7. PHILLIPS VIEWS BACK TAX CLAIMS AS EVEN MORE SERIOUS PROBLEM THAN CLAIMS AGAINST GUARANTY FUND. THEY

EXPLAINED THAT PHILLIPS IN NOVEMBER, 1974 HAD RENOUNCED FIVE PARCELS OF CONCESSIONS, AND HAD WRITTEN ACQUISITION COSTS OFF ON TAX PAYMENTS, WHICH WAS ACCEPTED BY GOV AT THAT TIME. NOW GOV IS CLAIMING THAT THIS PREVIOUS TAX BREAK IS AN INDIRECT COMPENSATION, WHICH NATIONALIZATION LAW PRECLUDES FOR CONCESSION ACQUISITIONS. GOV CLAIMS THAT ADDITIONAL TAX IS NOW DUE, PLUS 10% FINE. PHILLIPS SAYS THAT OTHER OIL COMPANIES HAVE RECEIVED VENEZUELAN TAX CLAIMS GOING BACK AS FAR AS 1971. PHILLIPS HAS FILED APPEAL IN TAX COURTS, AND HOPES TO GET MATTER CONFIDENTIAL

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RESOLVED DURING PEREZ ADMINISTRATION AND WHILE HERNANDEZ REMAINS AS MINISTER. IT IS FEARFUL THAT, IN A SUBSEQUENT ADMINISTRATION, IT WOULD BE TREATED EVEN MORE INEQUITABLY. PHILLIPS ESTIMATES THAT FOR THE INDUSTRY AS A WHOLE THE DEDUCTIONS FOR ASSETS, BACK TAX CLAIMS AND THE CONTROLLER GENERAL'S CLAIMS MAY COINCIDENTALLY ADD UP TO THE \$1.1 BILLION WHICH THE GOV AGREED TO PAY IN COMPENSATION.

8. DEPARTMENT RESPONSE TO EACH PRESENTATION WAS BASICALLY THE SAME. WE INDICATED OUR CONCERN OVER NEED OF U.S. COMPANIES TO OBTAIN EQUITABLE TREATMENT FROM GOV. DEPARTMENT OFFICERS NOTED EMBASSY AND AMBASSADOR'S EFFORTS TO SUPPORT AND ASSIST FIRMS IN THEIR DEALINGS WITH GOV. (BOTH MOBIL AND PHILLIPS SPOKE HIGHLY OF EMBASSY EFFORTS IN THIS REGARD.) WE ASSURED THEM THAT USG IS STILL FOLLOWING MATTER CLOSELY AND WOULD COORDINATE FURTHER APPROACH TO GOV WITH THE EMBASSY. WE NOTED, HOWEVER, THAT TAX CLAIMS WERE IN THE HANDS OF THE COURT AND THERE APPEARED TO BE LITTLE THAT WE COULD DO AT THIS JUNCTURE TO AFFECT OUTCOME, NOTING AS WELL GOV ASSURANCES THAT COMPTROLLERS BACK TAX CLAIM HAD NO MERIT. IF OUTCOME UNFAVORABLE, WE WOULD CONSIDER OUR POSITION. COMMENT: ONE OF PRINCIPAL CONCERNS EXPRESSED AT BOTH MEETINGS WAS INORDINATE GOV DELAY IN SETTling CLAIMS ON GUARANTEE FUND. BOTH COMPANIES APPEAR TO THINK HIGHLY OF MINISTER HERNANDEZ BUT QUESTION HIS ABILITY TO CONTROL EVENTS, ESPECIALLY AT LOWER LEVELS IN THE BUREAUCRACY. THE APPROACHING PRESIDENTIAL ELECTION ALSO HAS THEM WORRIED. THEY FEAR THE NATIONALIZATION ISSUE MAY BECOME A POLITICAL FOOTBALL AND PLACE IN JEOPARDY PROSPECTS

FOR A SETTLEMENT ON TERMS APPROACHING THOSE PROJECTED  
BY THE 1975 NATIONALIZATION ARRANGEMENTS.

9. COMPANY PRESENTATIONS WERE MOST LIKELY AN ATTEMPT TO  
COMMUNICATE THEIR GROWING SENSE OF URGENCY TO USG.  
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MOBIL ALSO LEFT IMPRESSION THAT THERE IS CLEAR DISTINC-  
TION BETWEEN GOV TREATMENT ACCORDED US OIL FIRMS HAVING

MAJOR AND MINOR INTERESTS IN VENEZUELA. EXXON, GULF,  
AND SHELL ARE GETTING BETTER TREATMENT (OR CONVERSELY,  
IN VIEW OF FAVORABLE ONGOING ARRANGEMENTS WITH GOV, ARE  
WILLING TO ACCEPT WHAT WOULD OTHERWISE BE UNSATISFACTORY  
TREATMENT). THEY APPEAR TO FEAR THE USG IS MORE  
INTERESTED IN PROTECTING THE INTERESTS OF THE MAJORS AND  
WISH TO REMIND US THAT THEY TOO ARE IN THE BALLGAME.

10. WE ARE SERIOUSLY CONCERNED THAT, AT LEAST IN SOME  
CASES, UPSHOT WILL BE THAT GOV WILL ATTEMPT TO OFFSET  
MUCH OR POSSIBLY ALL OF THE COMPENSATION WHICH THE  
COMPANIES AND THE USG UNDERSTOOD THE GOV TO HAVE  
PROMISED. IF SO, THERE COULD BE GROUND FOR THE U.S.  
MAINTAINING DIPLOMATIC CLAIMS AGAINST THE GOV, ALLEGING  
DENIALS OF JUSTICE. IN OUR VIEW, GOV MUST BE BROUGHT  
TO UNDERSTAND THAT WE EXPECT THE COMPANIES TO BE PAID  
SUMS CONTEMPLATED BY THE NATIONALIZATION AGREEMENTS AND  
ACCOMPANYING ASSURANCES. WE ARE WATCHING DEVELOPMENTS  
CLOSELY BUT DO NOT ANTICIPATE AT THE MOMENT ANY FORMAL  
APPROACH TO GOV.

11. EMBASSY COMMENTS AND SUGGESTIONS FOR FURTHER ACTION,  
PARTICULARLY REGARDING ADDITIONAL INFORMAL REPRESENTA-  
TIONS TO GOV, ARE WELCOME. FOR EXAMPLE, IT OCCURS TO US  
THAT IMFORMAL REPRESENTATIONS ON THE BASIS OF THE POINT  
OF RESOLVING PROBLEMS BEFORE THE VENEZUELAN ELECTION  
CAMPAIGN WOULD BE IN THE INTERESTS OF BOTH THE GOV AND  
THE USG. MATERIAL PROVIDED DEPARTMENT BY MOBIL AND  
PHILLIPS BEING POUCHED TO CARACAS.  
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## Message Attributes

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**Type:** TE  
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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009